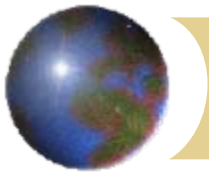


# *Africa's Traps and Challenges: What Can We Learn from East Asia?*

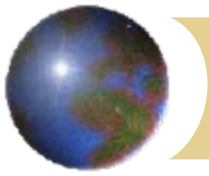
**Jorge Arbache  
Thierry Giordano  
Bruno Losch**

**ABCDE Conference  
Seoul, June 22, 2009**

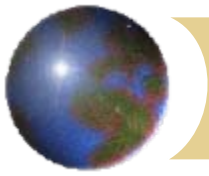


# Contents

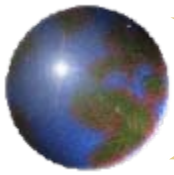
1. Africa's traps and challenges
2. Lessons from East Asian experiences
3. Policy options



# *1. The Africa's two-trap story and its challenges*

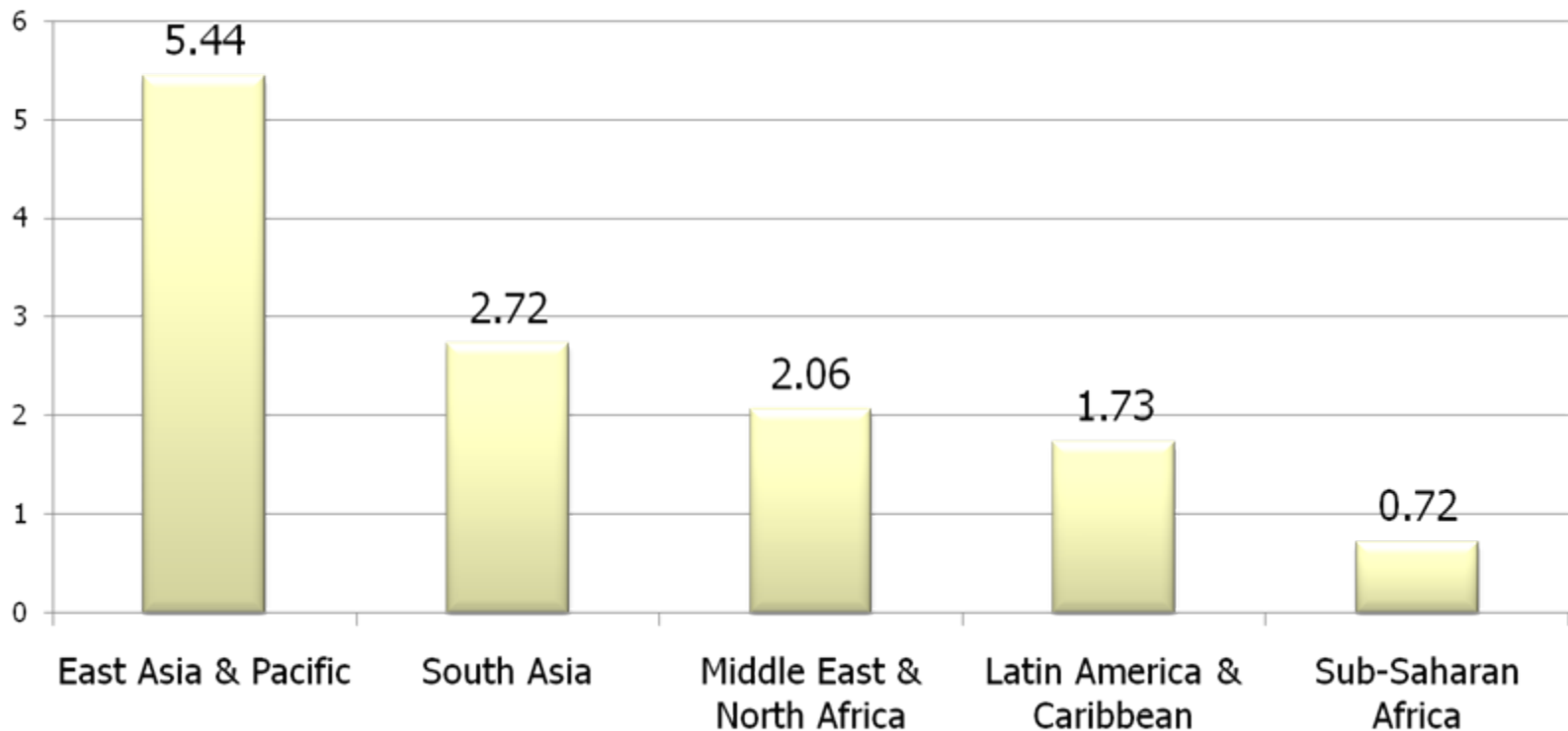


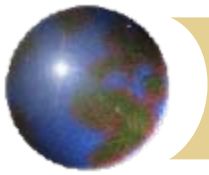
# *The growth volatility trap*



# Growth in Africa is very low...

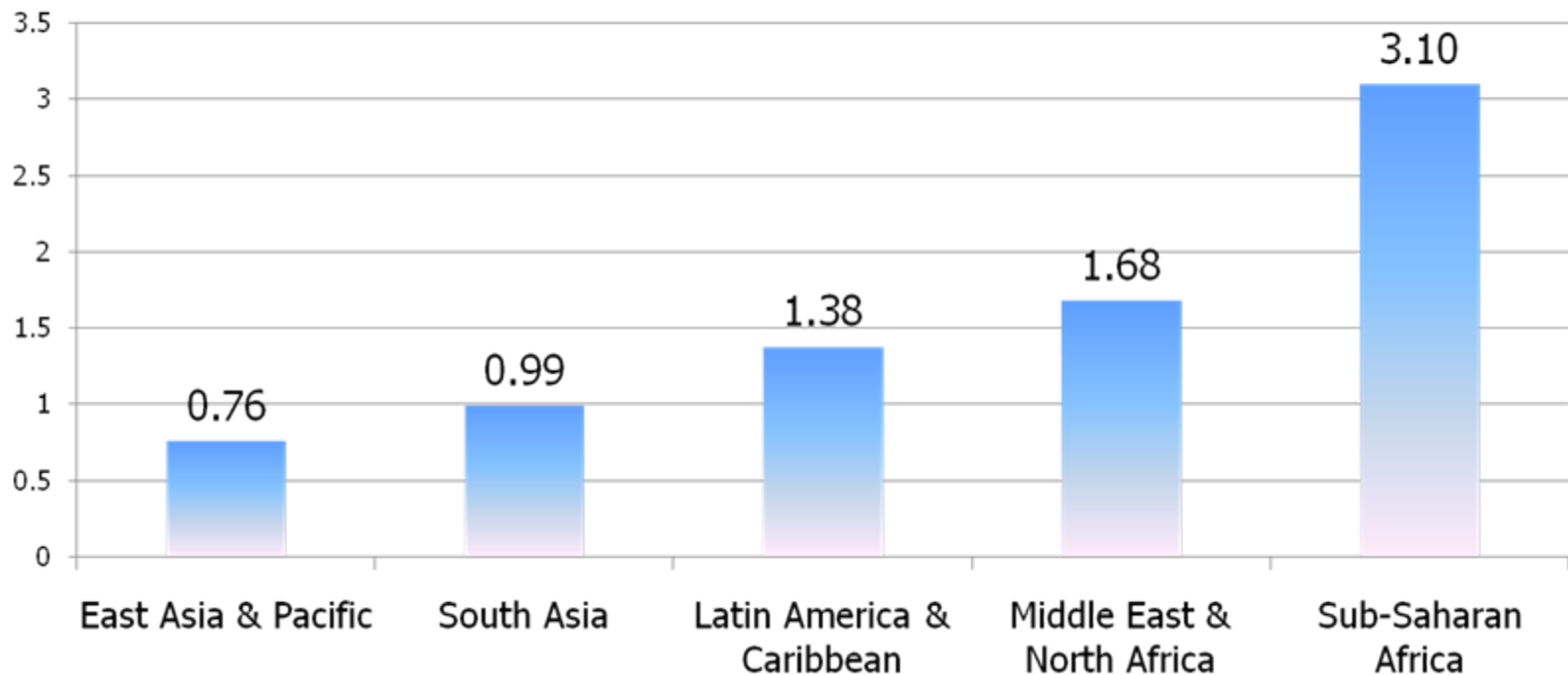
**GDP per capita growth - average 1960-2007**

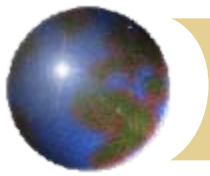




...and highly volatile

**GDP per capita growth - coefficient of variation  
1960-2007**



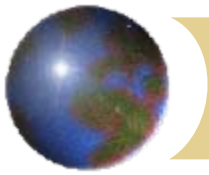


... growth accelerations are followed by  
growth collapses...

### Growth of GDP per capita – 1975-2005

GDP		During growth acceleration			During growth deceleration		
GDP growth (%)	GDP per capita (\$)	Frequency (%)	Growth rate (%)	GDP per capita (\$)	Frequency (%)	Growth rate (%)	GDP per capita (\$)
0.70	2,299	25	3.64	2,598	22	-2.74	1,794

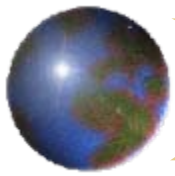
Arbache and Page (2007)



## ...that reduce average growth

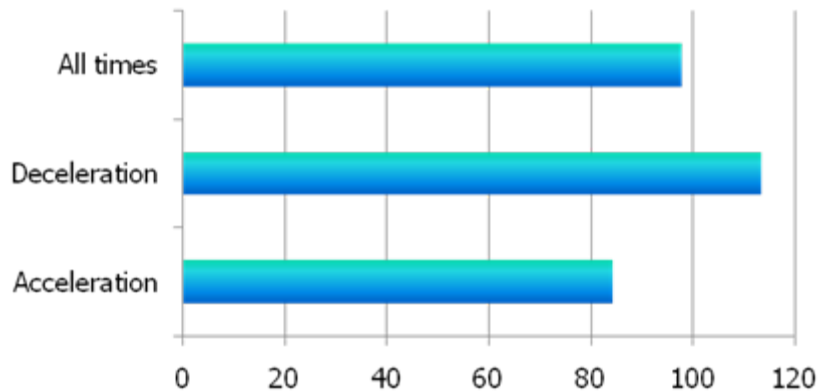
- During the good times GDP per capita growth is high by international standards (4%)
- Growth collapses offset most of the gains from good times (-3%)
- Had Africa avoided the greatest contractions of the last three decades it would have grown 1.7% a year, rather than 0.7%, and GDP per capita would be 36% higher



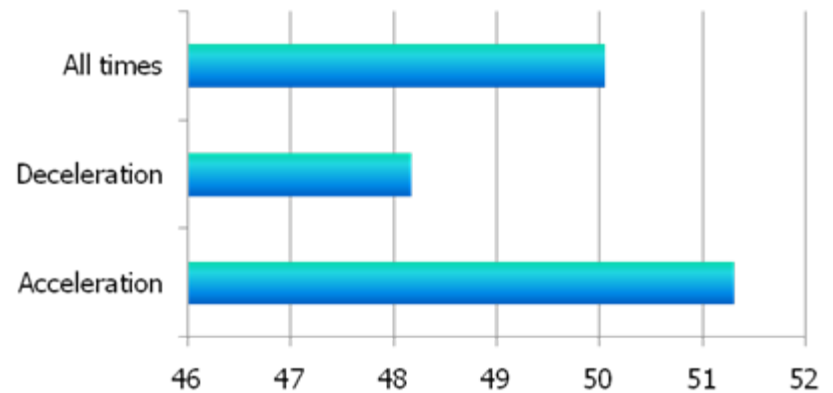


# Growth volatility has asymmetric implications...

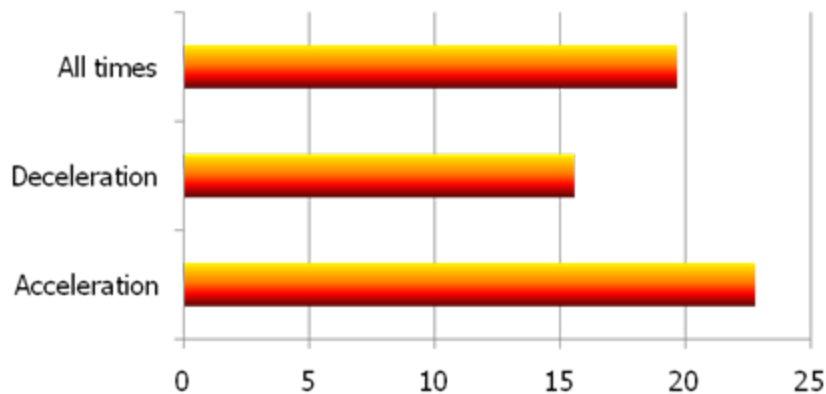
**Infant mortality (per 1,000)**



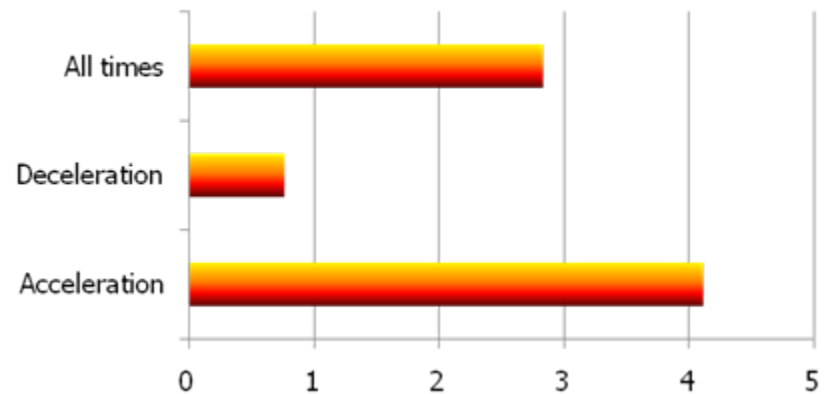
**Life expectancy**



**Investment (% GDP)**



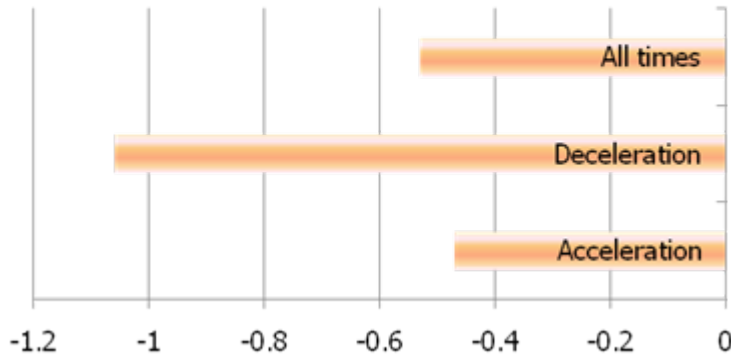
**FDI (% GDP)**



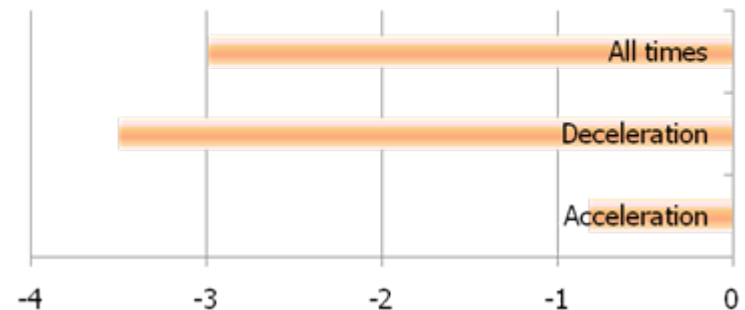


# ...that reinforce volatility

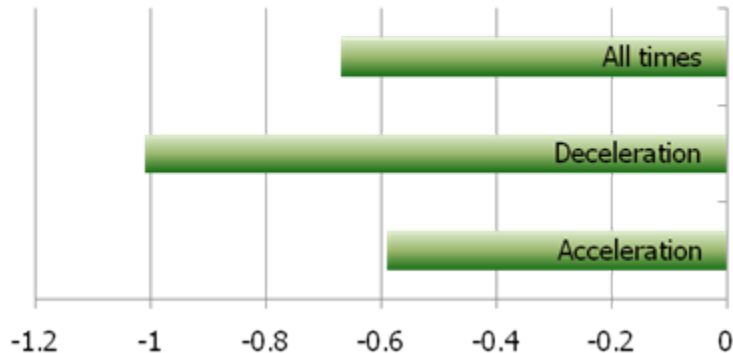
**Political stability index (-2.5 to 2.5) WBI**



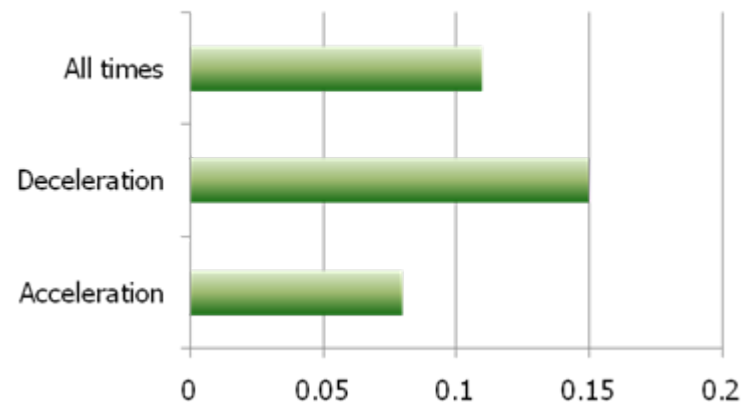
**Polity IV Index (-10 highly autocratic regime to 10 highly democratic regime)**

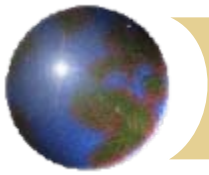


**Government effectiveness (-2.5 to 2.5) WBI**



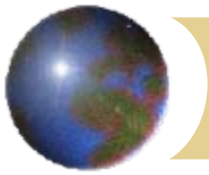
**Minor conflict (probability)**





# High growth volatility affects incentives and policies...

- Induces short-sighted behavior of politicians and investors as they expect sudden turnarounds
- Shortens the time frame within which policy makers and politicians make decisions
  - ❏ *Poor policies*
  - ❏ *Poor policy implementation*



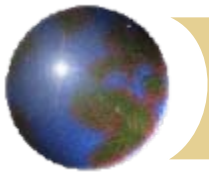
## ...and is associated with various factors

### ● Internal

- *Security and political stability*
- *Conflicts*
- *Governance*
- *Low savings and low investments*

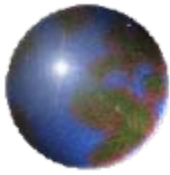
### ● External

- *Exposure to terms-of-trade shocks*
- *FDI*
- *Aid -- volatile and procyclical*

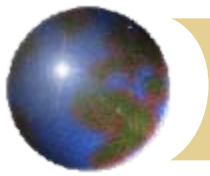


# Avoiding collapses is Africa's main growth challenge

- Increase average growth rates
- Improve human development and governance indicators
- Improve the business climate



# *The low-productivity jobs trap*

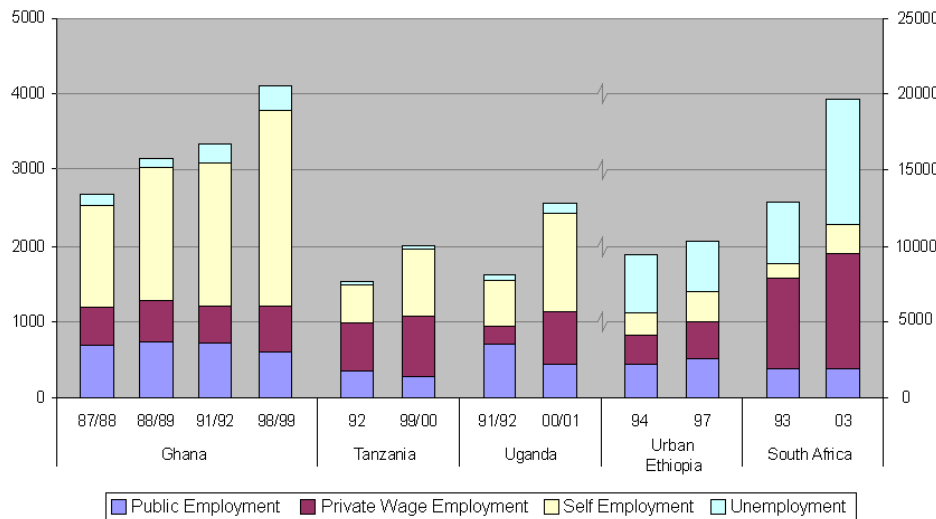


# Most jobs in Africa are informal...

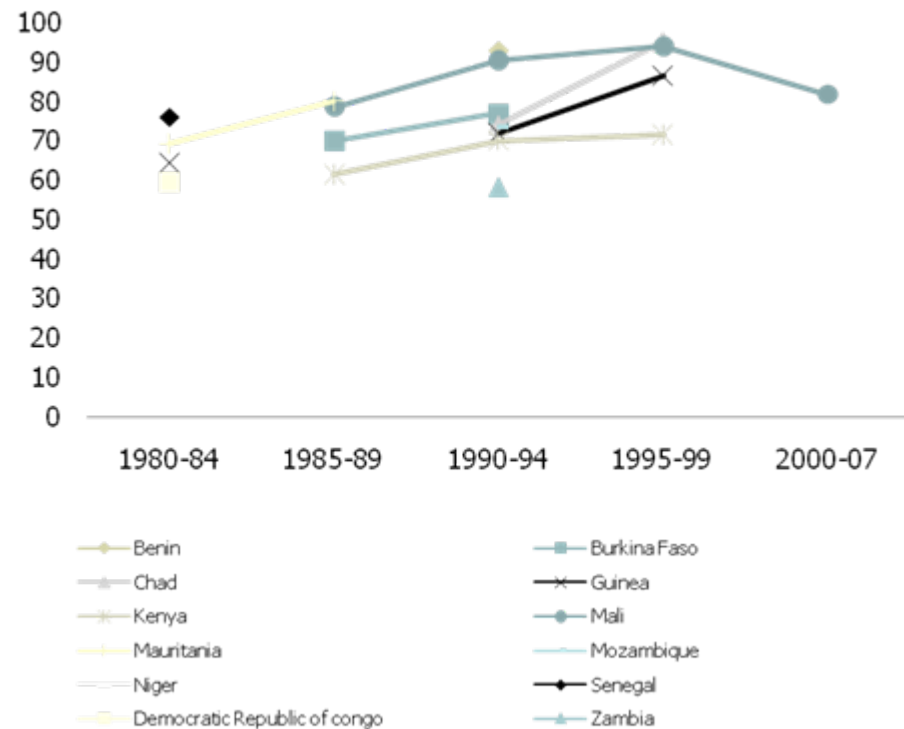
Trend towards self-employment...

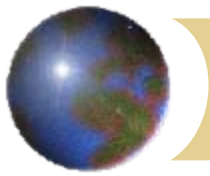
...and informality

Employment composition (1,000)



Share of informal employment in total non-agricultural employment (%)





## ...and concentrated in agriculture

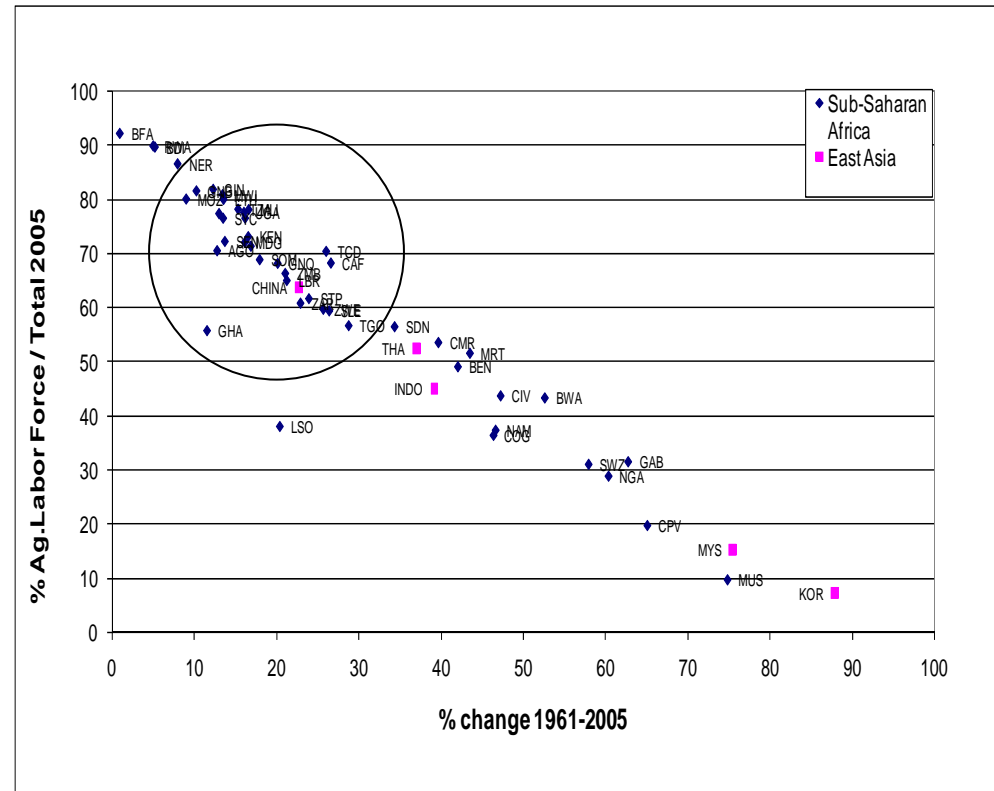
- On average 60% of the labor force is in agriculture

- In 22 countries > 70%
  - Only in 11 countries it is < 50%

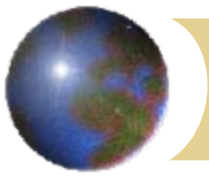
- This employment structure has hardly changed overtime

- Only a 25% reduction over 45 years

The share of agriculture in employment has hardly changed in Africa

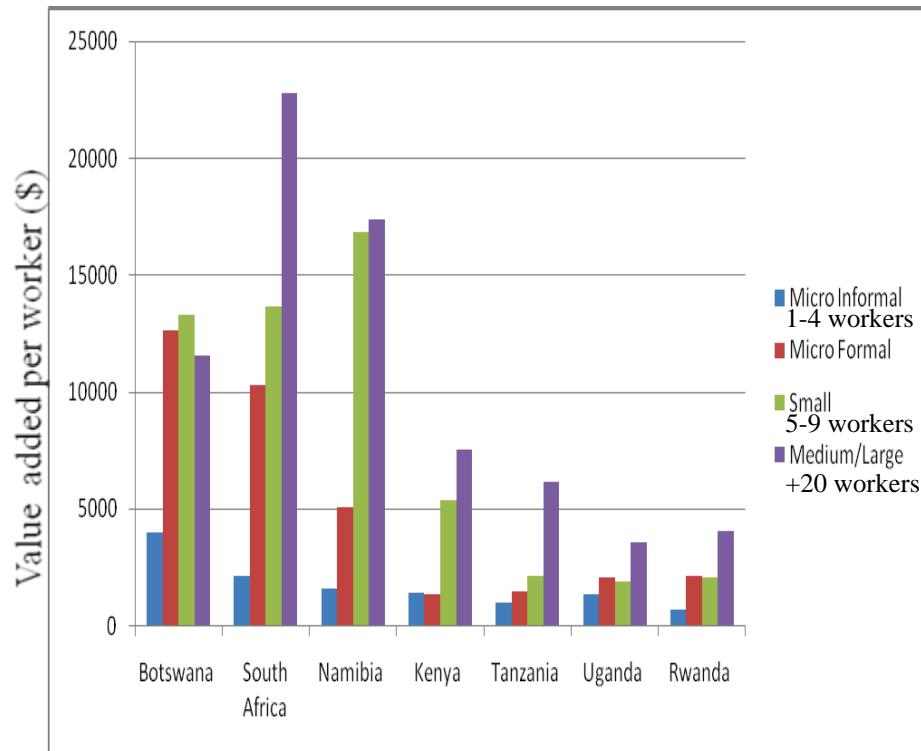






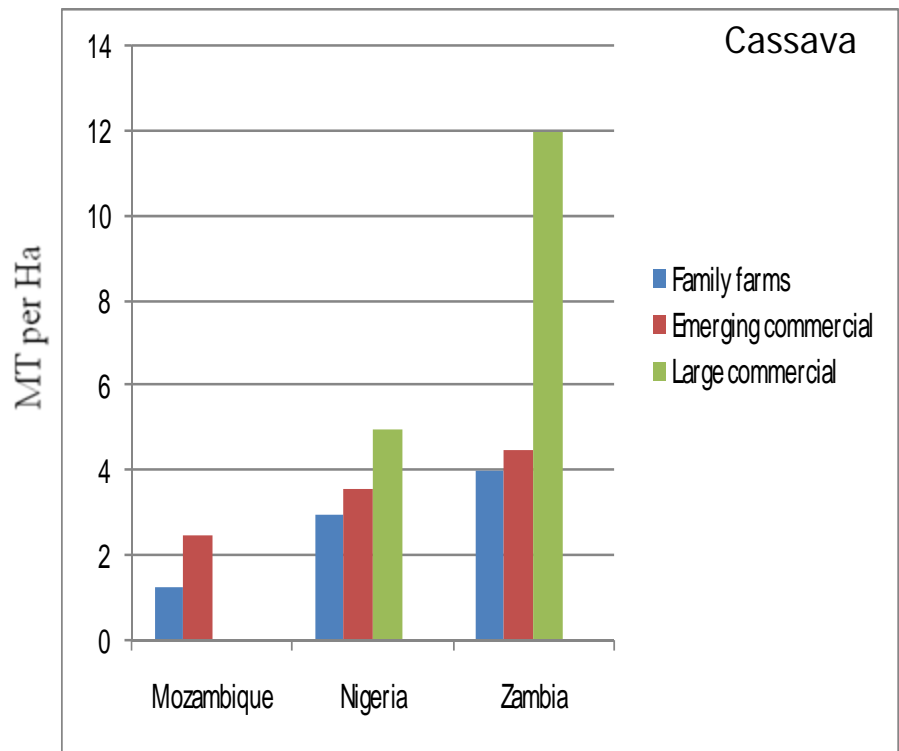
# The informal sector is associated with low productivity...

**Labor productivity of informal microenterprises is very low (median)**

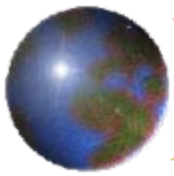


Gelb et al. (2008)

**Productivity of family farms is low**

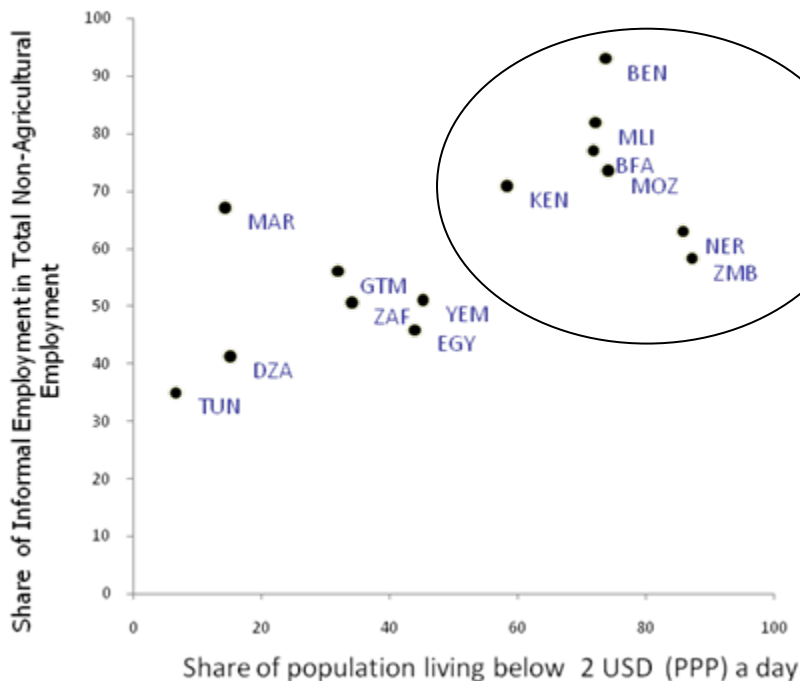


Morris et al. (2009)

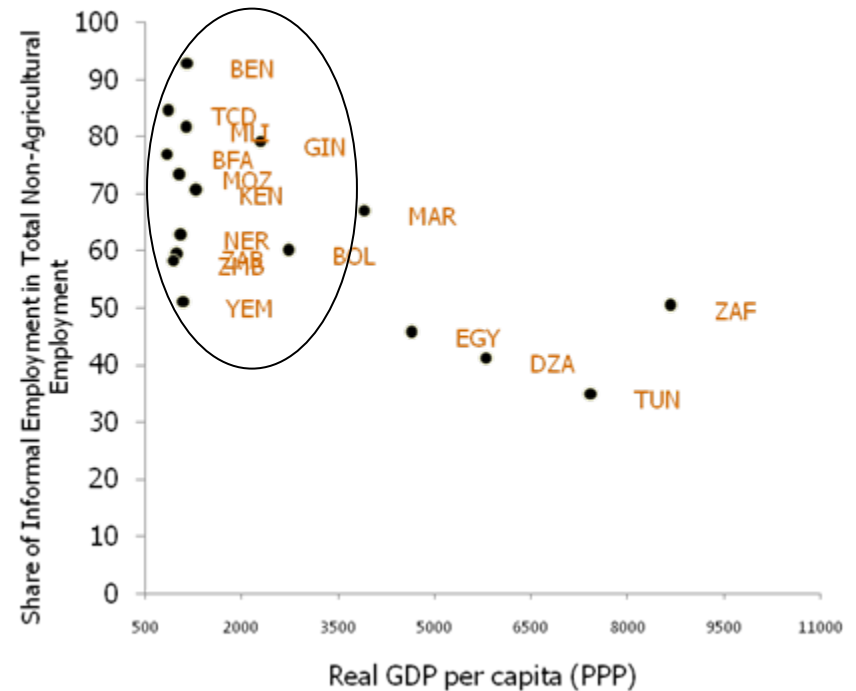


... and are correlated positively with poverty  
and negatively with GDP per capita

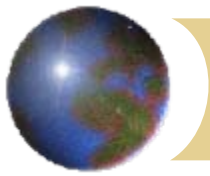
**Poverty and informality are positively correlated**



**GDP per capita and informality are negatively correlated**

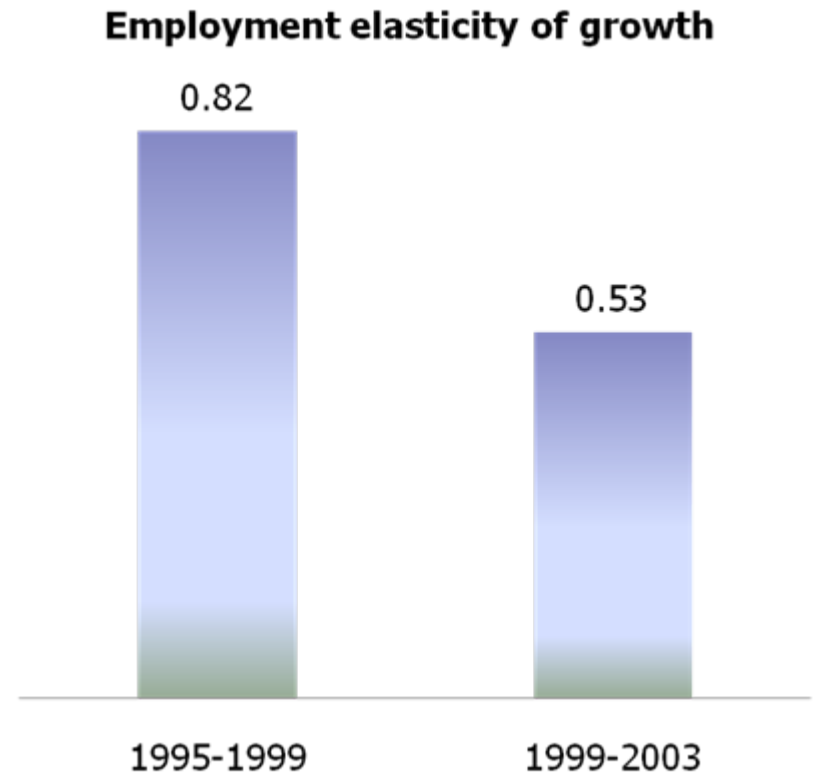


Source: OECD

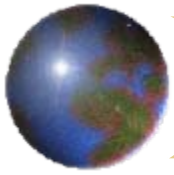


# Growth is not creating jobs

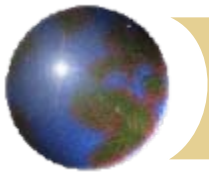
- Growth observed since mid 1990s was accompanied by falling employment elasticity
- Main drivers of growth are not labor intensive: minerals, oil



Kapsos (2005)

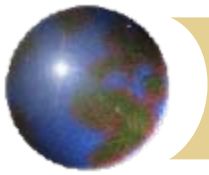


# *Africa's challenges*



# Africa faces unique challenges which hinder its ability to break out of its traps

- Africa has to deal **simultaneously** with:
  - ❑ ***Economic transition***: the region remains statistically as if it were at the beginning of the transition process from agriculture to industry and services
  - ❑ ***Incomplete demographic transition*** with high population growth rates (2% to 3.2%)
  - ❑ ***Globalization***
  - ❑ ***The effects of climate change***



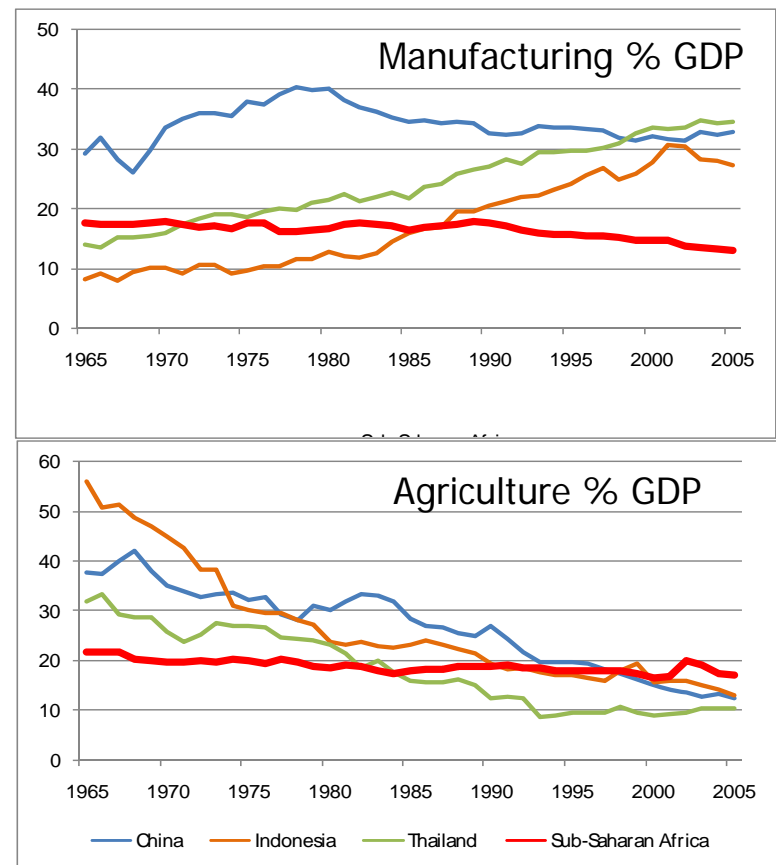
# Economic Transition

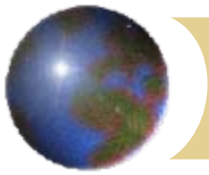
## ● Africa shows:

- *The economic structure remains constant with low levels of economic diversification => primary activities*
- *Urbanization without industrialization*

## ● For a long time to come agriculture will remain the main source of jobs

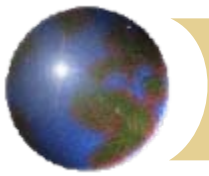
The economic structure hardly changed overtime



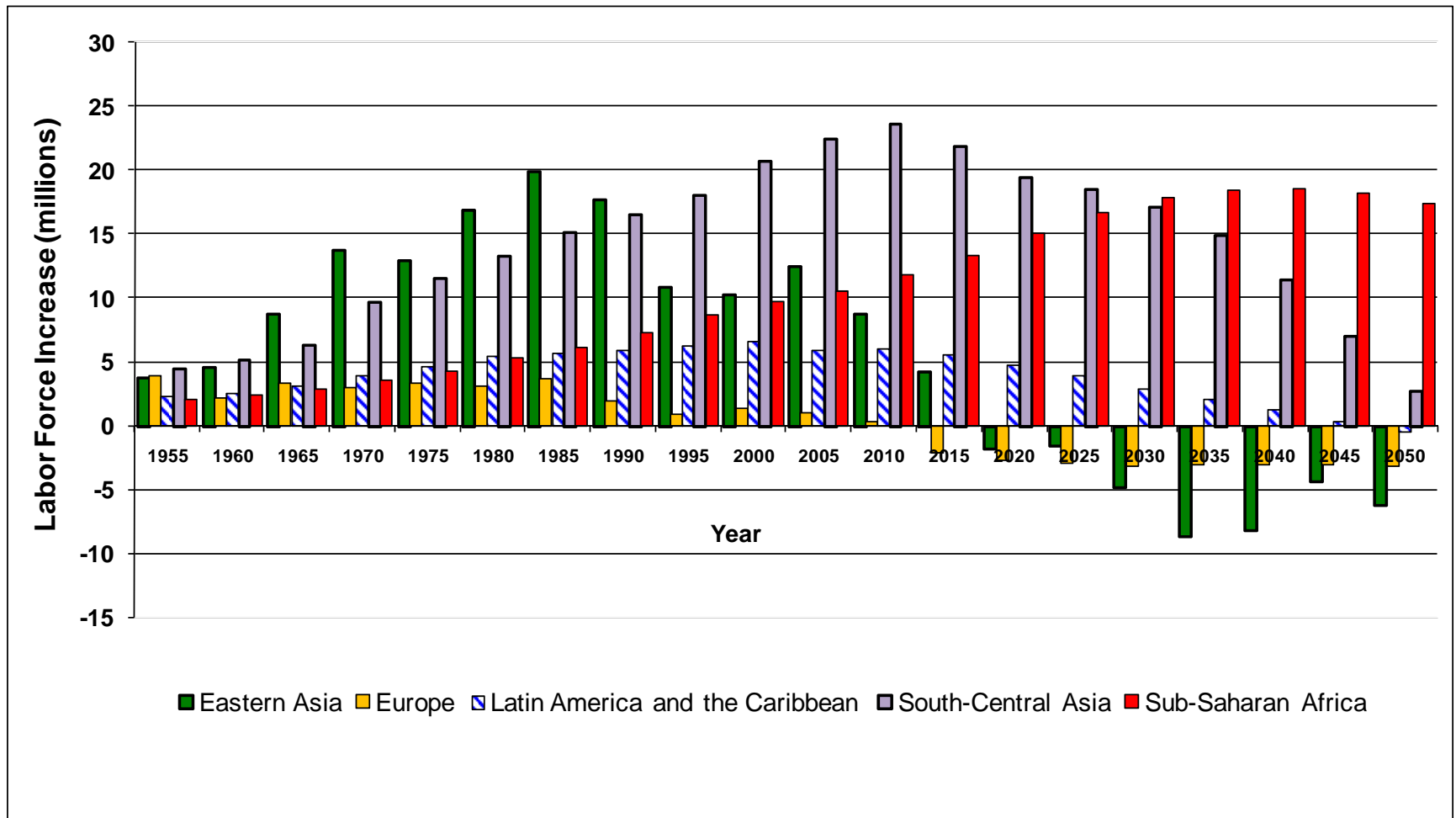


# Demographic Transition

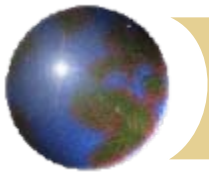
- Africa faces an immense demographic push
  - *720 million people today*
  - *1.1 billion in 2025*
  - *1.7 billion in 2050*
- The demographic pattern is changing rapidly
  - *The activity ratio is increasing: 1.2 today vs 1.9 in 2050*
  - *The labor force increases by 10 million a year*
  - *Demographic transition is a major opportunity or a major burden in case of insufficient job creation*



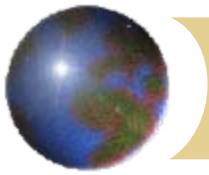
**The labor force is increasing in Africa while it is decreasing in all other regions**







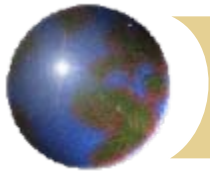
## *2. What Africa Can Learn from the East Asian Experiences*



## Although conditions between the regions differ significantly...

- History of the nation states and its consequences for institutions, cohesion and elites
- Different conditions
  - *World order: End of Cold War; new rules of the game (WTO, FTAs, international governance rules, etc)*
  - *Higher international competition ("the fight at the bottom")*
  - *Size of the domestic markets*
  - *Role of Japan*
  - *Role of diasporas (brain and money)*

*They constrain the room to maneuver*



# ... there are lessons that Africa can take from East Asia

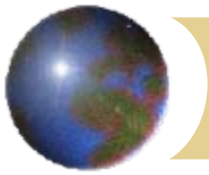
■ Economic growth driven by public policy

## Strategy

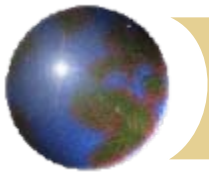
- *Leadership*
- *Prioritization*
- *Industrial policy*
- *Creation of human capital*
- *Getting the fundamentals right*
- *Active exchange rate policy*

## Implementation

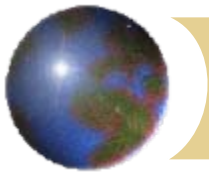
- *Pragmatism and experimentation*
- *Gradualism and incrementalism*
- *Sequencing*



- Critical role of agriculture and rural development
  - ▣ *Increase farm incomes: poverty reduction and rural diversification*
  - ▣ *Increase non-farm activities and incomes*
  - ▣ *Increase agricultural productivity, connection to markets and infrastructure*
- Exploiting natural and building comparative advantages
  - ▣ *Provision of public goods, right incentives, PPPs*
  - ▣ *Domestic markets as initial opportunities for assets and skills development*
  - ▣ *Export-led growth*

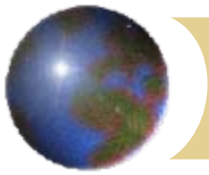


### *3. Policy options for breaking out of the traps*



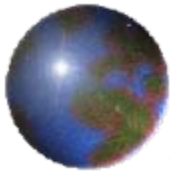
# Policy options (1): Breaking out of growth volatility

- Rebuilding states: security and political stability
- Managing conflicts
- Government accountability
- Macroeconomic stability
- Economic diversification
- Shared growth



## Policy options (2): Breaking out of low-productivity jobs

- Boosting agricultural and rural development
  - *Increase agricultural output and productivity*
  - *Provide for cheap food, lower imports, export capacity*
  - *Increase farm income → development of rural nonfarm → sustainable rural economy*
- Increase diversification
  - *Increase local value added in agribusiness*
  - *Promote innovation*
  - *Develop manufacturing*
  - *Promote domestic and regional markets*
  - *Provide incentives to export*



*Thank you*